From: A Message From John Simon
Sent: Friday, February 22, 2019 1:42 PM
Subject: 2018 and 2019 STIP Update

A Message from John Simon

Interim Chief Executive Officer

Team:

First, I want to recognize that 2018 was a very trying and difficult year for us at PG&E. It has created hardship and stress for many of our employees. That's compounded by the hardship and stress suffered by those in our communities affected by the wildfires.

I also know our Chapter 11 filing is difficult and creates a lot of uncertainty for each of you—whether that is in your work or in your personal lives. Thank you for your patience and your ongoing commitment to PG&E as we navigate through this process together. The path ahead won't be easy, and we will have to make a lot of difficult decisions.

This note regards one of those decisions.

You will remember that as part of our initial Chapter 11 filings on January 29, we shared with the court that we expected to bring forward a request for approval of our 2018 Short Term Incentive Program at the end of February, following review by our Board of Directors. That would have included all STIP-eligible employees in the company with the exception of Officers, for whom the STIP already had been canceled.

Since that time, the senior management team and the Board of Directors have wrestled with whether to move forward with the 2018 STIP at all. This has been an immensely difficult decision because we know how it will affect you and your families.

My own view on the decision evolved over time. The more I stepped back and thought about the impacts the wildfires have had on so many people outside our company, regardless of fault, the more I came to believe paying STIP in 2018 was not the right thing to do.

Ultimately, we decided together that the 2018 STIP should not be paid because to do so would, in effect, put ourselves at the front of the line for that payment ahead of thousands of other prepetition claimants and creditors who we currently cannot pay and who must await

resolution of the Chapter 11 process.

We know this decision likely is an unpopular one with our employees. That's why I think it's important to give you some details on how we arrived at that decision.

As a starting point, our STIP is at-risk compensation. That's how it has been designed. There are no guarantees. Our performance score based on the metrics for 2018 was a little better than 1.5; that's good on paper. But our STIP metric results do not align with where we find ourselves.

In 2018, there was a significant human toll from the Camp Fire. There were 86 fatalities, some 14,000 structures were destroyed, and the town of Paradise is largely gone. Families have been disrupted, some forever. We are facing thousands of claims from Camp Fire victims. While the cause of the Camp Fire is still under investigation, we have filed reports with the CPUC that indicate our equipment may have been involved. This has created widescale uncertainty about our business, leading to credit downgrades and, in part, to our Chapter 11 filing.

In terms of the company's overall financial health, in 2018 we lost more than 50 percent of our market cap—meaning our investors have lost over $10 billion. This isn't just dollars and cents, it also has had real impact on many people.

Through the third quarter of 2018, we've already taken charges that nearly eliminated our earnings for the year.

Looking at the whole picture, can we say we met the spirit of our plans for the year? Considering the impacts of the wildfires, should we be paying ourselves for our performance last year? We felt the answer was no.

We recognize the hardship on our people, and we don't take that lightly. But we believe as a whole that the hardships on others are in many cases significantly greater.

2019 STIP Proposal

To address how we incent our employees going forward, we need to start anew.

We have important things to do in 2019, and we want to incent all of you to do them. To that end, we are proposing a different STIP plan for 2019, taking into account the realities of the

Chapter 11 process and our current business environment.

In early March, we intend to file a motion with the bankruptcy court to approve a redesigned STIP as follows:

- Assuming quarterly performance metrics are met, the 2019 STIP will be paid out on a quarterly basis for 2019 performance.
- The 2019 proposed quarterly payouts would potentially be in April, July and October 2019, and January 2020. Note that the first payout date might need to be adjusted depending on the timing of court approval, if obtained.
- STIP will continue to be at-risk compensation based on company performance.
- There will be no individual modifier. All STIP will be paid out at the company score.
- As safety is PG&E's most important responsibility, 50 percent of STIP will continue to reflect safety metrics. Financial stewardship will have a 40 percent weight (an increase over prior years), and customer metrics will be 10 percent.
- While we will use these metrics and associated targets for goal-setting purposes, they are not final, nor can the 2019 STIP be implemented, unless and until we receive bankruptcy court approval.

It is also important to remind you that we recognize and appreciate the hard work so many of you put in last year. That's why we will go ahead with merit increases in base pay in March. You and your supervisor should already have talked about your 2018 performance, and any merit increase will be based on the factors raised in that discussion.

I know this is a lot to take in and to process. I, and the rest of the leadership team, know and understand the feelings that this decision may generate. We will be hosting a conference call on Monday to address your concerns and take your questions. An invitation will come out shortly. We will keep you informed, should anything change.

In the meantime, please stay focused on supporting each other and embracing our role as public safety officers. And thank you for your continued support.

John